California Funds Destined for Waste Without Program Adjustments

WASHINGTON. D.C. – On February 19, 2010, President Obama announced the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (the "Hardest Hit Fund"), his Administration's proposal to turn over $2.1 billion in borrowed bailout funds to state housing finance agencies ("HFAs") in selected states. Today, the House Committee on Oversight and Government Reform Ranking Member Darrell Issa (R-CA) **sent a letter** to Treasury Secretary Timothy Geithner criticizing the Treasury for "its lack of transparency and take small first steps toward public accountability to ensure that Hardest Hit Fund dollars are spent on genuinely innovative, locally-driven programs that will maximize the help to borrowers."

"I am disappointed to learn that the Hardest Hit Fund displays the same opacity, waste, and poor planning as do the other foreclosure-mitigation programs being administered by the Department of the Treasury," Issa wrote. "The American people have a right to know whether the unprecedented debt spending their government authorized in 2008 is being wasted. Therefore, I am writing to request that Treasury publish basic information about how the projects subsidized by the Hardest Hit Fund will be proposed, evaluated, and assessed."

Issa pointed to the California Housing Finance Agency's ("CalHFA") proposal to spend the majority of its $700 million Hardest Hit Fund allocation – over $419 million – on a mortgage principal reduction program that, by design, will assist only 5,500 homeowners. The program will not provide assistance to bring loan to value (LTV) ratios lower than 125%, which means that even the few homeowners assisted will remain deeply underwater, with a high statistical likelihood of default and a strong incentive to abandon their mortgages later.

"The proposals that have been released by HFAs reveal that Hardest Hit Fund monies, if spent as the agencies are proposing, will almost certainly be wasted," wrote Issa. "The programs being proposed by the HFAs will fail to help many homeowners and likely leave some *worse* off . The experts most qualified to judge foreclosure-mitigation programs are the community organizations that counsel distressed borrowers and help them to navigate the Byzantine regulations of Treasury's and the states' assistance programs."

The Mabuhay Alliance, based in Issa's district, has worked directly with thousands of homeowners and has helped these clients to achieve a far lower-than-average redefault rate in Treasury's Making Home Affordable programs, and has grown to understand which programs work and which do not. The Mabuhay Alliance recently wrote to CalHFA requesting that the principal reduction program be reconsidered:

…[T]he principal reduction, even if all goes well (including full matches by the financial institutions), may be the wrong decision for families deeply underwater. It will prolong a futile hope…

California's $700 million spending plan is not only wasteful but also uncoordinated. For example, CalHFA has admitted it has no idea how its programs would be coordinated with existing federal ones, such as HAMP.

"Apparently, California's bureaucrats do not plan to explain to homeowners how to combine federal and state sources of foreclosure-mitigation assistance, and will leave that complicated task to the overstressed homeowners themselves – and to private nonprofits such as the Mabuhay Alliance," Issa wrote. "California's poorly-planned and wasteful spending does not seem to be an exception."

In another example, the Florida Housing Finance Corporation plans to use part of its deficit-funded federal allocation on a down payment assistance program that will subsidize new home purchases. In other words, Florida plans to encourage new buyers to purchase homes they otherwise could not afford – just like the government policies that, on the federal level, caused the housing bubble in the first place.

"These problems are compounded by Treasury's lack of transparency and accountability. Treasury's guidelines for the state HFA proposals call for "innovation," but are vague enough that programs which substantially duplicate existing federal and private ones – as several of California's do – appear to qualify," said Issa. "Treasury has not clarified what it considers to be "innovation," has not published the state HFAs' proposals, and has not solicited or accepted input from the public and Congress on the best use of these taxpayer funds."

Issa requested that Treasury provide the following information as soon as possible, but in no case later than 5 pm EDT on Friday, June 4, 2010:

- Publish all state HFA proposals for Hardest Hit Fund dollars on its website;
- Publish a timetable for public comment and Treasury action on all of the state HFA proposals; and
- Publish detailed, objective, and tangible criteria for the ongoing evaluation of the state programs that Treasury approves for Hardest Hit Fund dollars, and describe how Treasury will ensure that the programs are held accountable for meeting the criteria.

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